

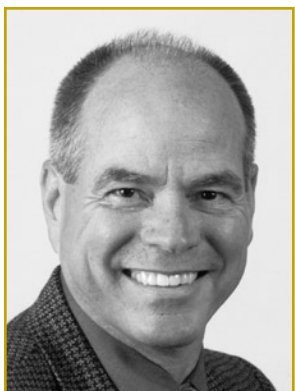
City of Everett

Utilities Division



2005 Annual Report

Message from the Director



In 2005, our utility continued an ongoing commitment to prepare for the future while minimizing impacts on the local environment. We cleaned, repaired and replaced many miles of aging water and sewer lines. We made substantial progress on improvements at the Water Pollution Control Facility and Water Filtration Plant. We also began the process of updating both our water and sewer comprehensive plans—plans that detail how the utility will keep pace with the rapid growth in our area.

Maintaining a strong fiscal position is the key to leveraging the capital that is necessary to meet the future needs of our water and sewer systems. This past year we implemented minor rate increases to support utility capital projects. We also issued \$35 million in revenue bonds. Due to a bond rating upgrade from Moody's Investors Services, we were able to minimize the cost of borrowing.

Our utility continually looks for ways to improve. We seek feedback from customers and staff on the services we provide. We interface with other utilities and agencies on a regular basis to learn about products and practices that might benefit our customers. We are also active

in various forums, both regional and national, that provide different perspectives on the issues facing water and sewer utilities.

Our success this past year can be attributed to our fine staff of dedicated employees. It also would not be possible without the excellent leadership and support of Everett Mayor Ray Stephanson and the Everett City Council: Council President Brenda Stonecipher, and council members Arlan Hatloe, Ron Gipson, Drew Nielsen, Mark Olson, Bob Overstreet and Paul Roberts.

A handwritten signature in blue ink that reads "Tom Theford". The signature is fluid and cursive, with a long, sweeping underline.

Tom Theford,
Utilities Director



Water Utility

For nearly a century, the City of Everett has developed a system to provide water to Everett and numerous neighboring communities. From reservoirs, to water treatment facilities, to transmission and distribution lines, the City has worked proactively to keep pace with the rapid growth in the area. Today, the City has water rights for 258 million gallons of water a day from the Sultan River system and provides drinking water to nearly a half million residents in Snohomish County, Washington.

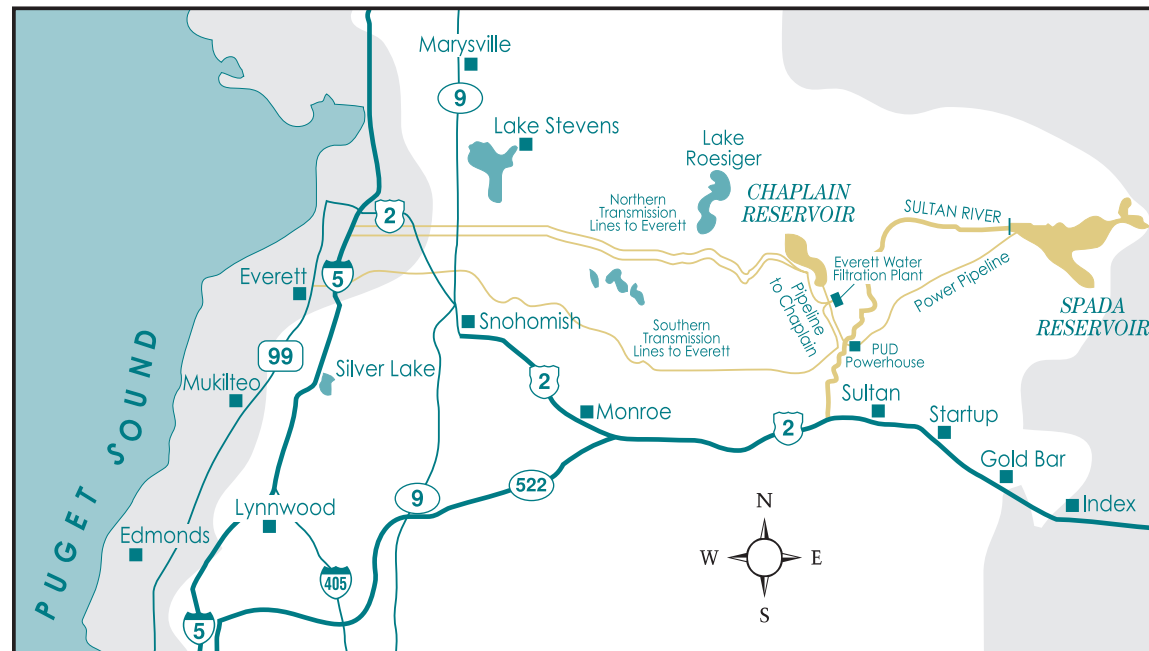
The City of Everett enjoys an abundant supply of water from Spada Reservoir. Spada Reservoir was created in 1964 in partnership with the Snohomish County PUD as part of the Jackson Hydroelectric Project. It is located in the Sultan River Watershed, about 30 miles east of Everett, and holds about 50 billion gallons of water. The Sultan River

Watershed covers 84 square miles and is one of the wettest watersheds in the Cascade Mountains. The average rainfall there is 165 inches a year.

Everett has long been committed to a strong security program to protect water quality in Spada Reservoir. The watershed is patrolled on a

regular basis and human activities are limited. While there have been no threats to the water supply system, security has been increased and the City continues to evaluate and adjust security measures as needed.

Spada Reservoir



Water Utility

From Spada Reservoir, the water travels through a pipeline to Chaplain Reservoir where the City's water treatment plant is located. The plant is a direct filtration facility with a hydraulic capacity of 140 million gallons a day (MGD) with the existing clearwell, and an approved treatment capacity of 132 MGD. In addition to filtration, the facility provides chemical treatment for disinfection, corrosion control and fluoridation. After treatment, the water is conveyed to Everett through 76 miles of pipelines and tunnels.

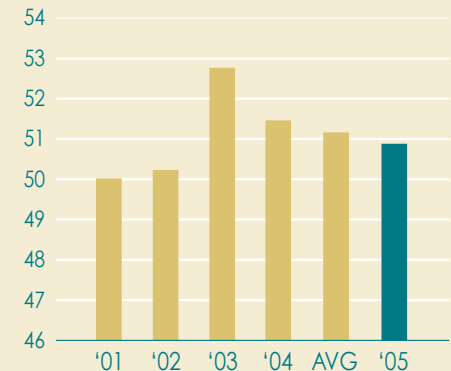
The City of Everett is one of the largest water purveyors in the State of Washington. The City's extensive supply and transmission system provides the backbone for water supply

throughout Snohomish County. The City delivers potable water to a half million people including the citizens of Everett, areas adjacent to the City, 31 wholesale water purveyors and 64 small water systems. The City also sells non-potable water to the Kimberly-Clark Corp. paper plant located on the Everett waterfront.



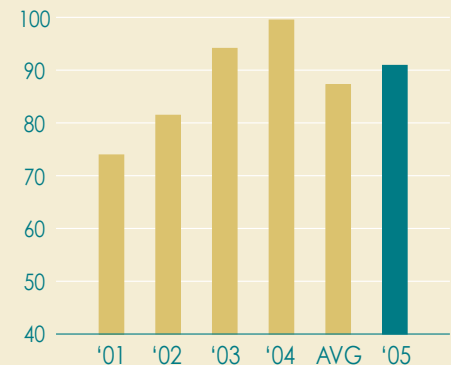
Water Treatment Plant

Average Daily Consumption
(Million Gallons Per Day)



The Everett Water Treatment Facility produced an average of 50.9 MGD of water in 2005—a 0.7 percent decrease compared to 2004 (51.3 MGD) and slightly below the previous four-year average (51.1 MGD). This can be attributed to fluctuations in annual temperatures and rainfall levels.

Annual Peak Day Demand
(Million Gallons Per Day)



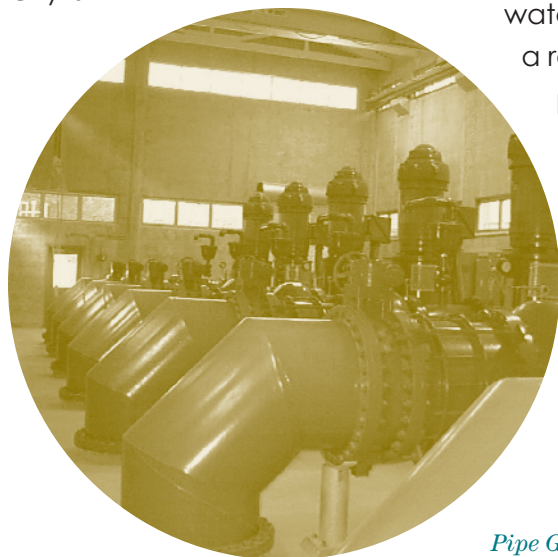
The peak day demand for treated water occurs in the summer months, usually July or August. The 2005 peak day demand was 90.3 MGD—about 10 percent less than the 2004 peak day demand, but 3.1 percent higher than the average peak day demand from 2001 to 2004 (87.5 MGD).

Water Utility

The Washington State Department of Health (DOH) requires water utilities to prepare Comprehensive Water System Plans (CWSP) every six years. CWSPs review existing water systems and 50-year population projections to ensure there will be adequate water supplies well into the future. In 2000, the City of Everett submitted its most recent CWSP to the DOH. The City is

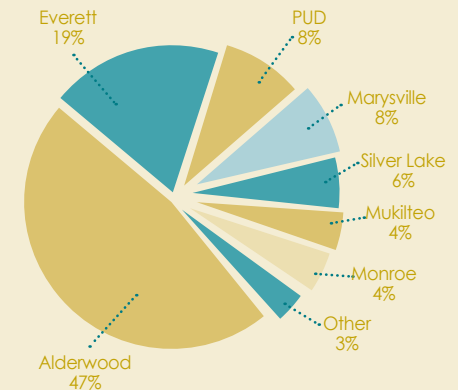
in the process of developing its next CWSP, which will be submitted to the Washington State DOH in 2006.

The 2000 CWSP identifies a six-year capital improvement program of \$60 million and a 20-year capital improvement program of more than \$140 million. These investments are necessary to replace aging infrastructure and keep pace with the growing demand for water. The CWSP also includes a regional water conservation program that includes demand-side measures for residential and commercial customers. When completed, these activities are expected to reduce demand by more than 4 MGD.



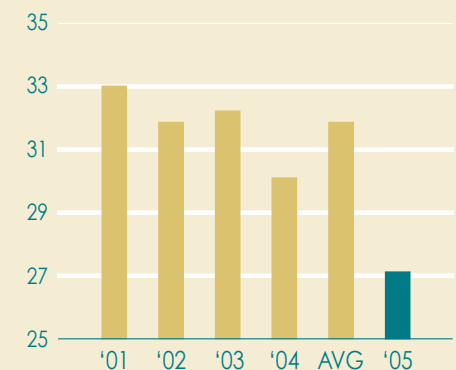
Pipe Gallery, Treatment Plant

Distribution of Treated Water
(Percent of Demand)



Seven water systems account for 97 percent of the demand for water: Alderwood Water, Silver Lake Water, Snohomish County PUD and the cities of Everett, Marysville, Monroe and Mukilteo. The remaining 3 percent is used by small water districts and associations.

Kimberly Clark Consumption
(Million Gallons Per Day)



In 2005, the City provided an average of 27.2 MGD to the Kimberly Clark Corporation—an 11.6 percent decrease compared to 2004 (30.3 MGD) and 17.2 percent decrease from the previous four-year average (31.9 MGD). This can be attributed to production levels and efficiency improvements.



In 2005, the Everett Water Pollution Control Facility processed an average of 17.3 MGD of wastewater—a 2.3 percent increase from 2004 (16.9 MGD) and 1.7 percent increase from the previous four-year average (17.0 MGD). Approximately half was from the lagoon system and half from the mechanical treatment facility.

Sewer mains inspected	35,880 ft
Sewer mains cleaned	61,410 ft
Side sewers inspected	4,760 ft
Side sewers cleaned	2,970 ft
Drain lines installed	3,000 ft
Drain lines inspected	770 ft
Drain lines cleaned	38,180 ft
Catch basins cleaned	770 basins
Total spoils removed	1,201,420 lbs

Inspections, Cleanings & Repairs
(Feet, Basins, Pounds)

Maintaining and upgrading the wastewater infrastructure is a high priority for the City. This is enhanced by responsible maintenance practices. During 2005, over 28 miles of pipes and drain lines were inspected, cleaned or replaced, and over 600 tons of spoils were removed.

Sewer Utility

The City of Everett's wastewater system includes more than 300 miles of sewer lines and a treatment plant, the Everett Water Pollution Control Facility, located in north Everett. The system plays a vital role in protecting public health. It also protects rivers, lakes and streams from pollutants and minimizes harmful impacts to the natural environment.

The Water Pollution Control Facility provides primary and secondary treatment of wastewater through a lagoon system and a mechanical treatment plant. The facility is licensed to treat 31.3 million gallons per day (MGD). The City of Everett provides sewer service to residential, industrial and commercial customers in Everett and portions of the Alderwood, Mukilteo and Silver Lake water districts.

The City began an expansion of the Water Pollution Control Facility in 2005 to meet the future demand for wastewater treatment. When completed, the project will increase the total capacity of the facility to 37.3 MGD.



*Water Pollution Control Facility,
Northeast View*

*Headworks,
Pollution Control Facility*



*Water Pollution Control Facility,
Northwesterly View*



Sewer Utility

The City of Everett is continually working to enhance the operation of the Water Pollution Control Facility and minimize impacts on the environment. Wastewater is carefully

monitored at each stage of the treatment process.

Samples are taken and tested daily to make sure the facility is operating correctly and meets state and federal standards. Equally important, these tests ensure the treatment process is effective, and the effluent leaving the plant is safe to be recycled back into the environment.

Historically, the City's treated wastewater was returned to the Snohomish River estuary. In 2004, the City of Everett and the Kimberly-Clark Corp. completed construction of a deepwater outfall. This state-of-the-art outfall removed Kimberly-Clark's mill discharges from Everett's inner harbor. It has also enabled the City to eliminate significant discharges into the Snohomish River.

The outfall project protects wetlands and improves water quality for fish and other marine life in the Snohomish River estuary and Port Gardner Bay. As part of the project, Kimberly-Clark is able to use some of the treated effluent from the Water Pollution Control Facility for non-contact cooling purposes.

2005 Financial Status

Everett Utilities Division continues to maintain a strong financial position. This has been accomplished through conservative budget assumptions, adequate cash reserves and a strong debt service coverage ratio. The division is committed to providing the best water and sewer services and strives to keep pace with changes in the industry.

Operating revenues are derived primarily from retail and wholesale water sales and charges for sewer service. Other revenues are generated from connection charges, capital contributions, interest earnings on reserve balances and grant proceeds. Total operating revenues increased 8.2%, from \$44.1 million in 2004 to \$47.7 million in 2005. This favorable increase in operating revenues

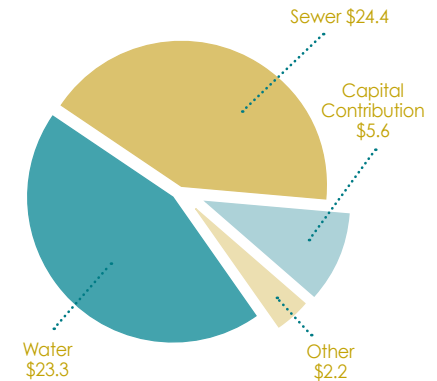
reflects growth in the City's service area and 2005 water, sewer and surface water rate increases. Water sales increased \$0.8 million, or 3.7%, while sewer sales increased \$2.8 million, or 13.0%. As revenue grew, it strengthened the division's cash flow. This allowed the division to step-up cash funding of capital improvements, particularly sewer system projects. Other non-operating revenues contributed \$6.7 million for total revenues of \$54.5 million. Capital contributions increased by \$0.7 million, from \$3.9 million in 2004, to \$4.6 million in 2005.

Capital and operating expenditures consist of operation and maintenance (O&M), capital improvements and debt service. Capital expenditures totaled \$28.5 million in 2005, including capitalized interest. Debt service was \$6.2 million. Total operating expenses increased from \$35.6 million in 2004, to \$37.9 million in 2005. This was due primarily to a

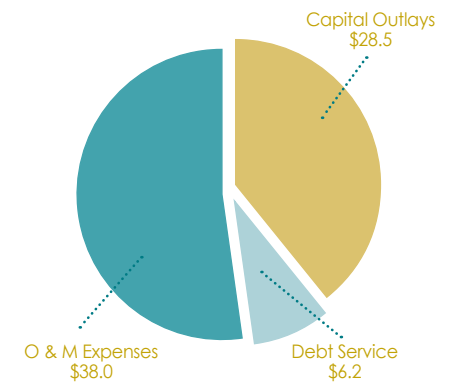
3-year program to replace manual-read meters with radio-read meters. This effort will continue in 2006 and should be completed in 2007.

The City of Everett adopted interest capitalization provisions of Financial Accounting Standards Board (FASB) Nos. 34 & 62. From the issuance of revenue bonds for capital construction projects and usage of public trust loans, capitalized interest totaled \$2.1 million in 2005. Prior period adjustments pertain primarily to a one-time capital contribution from the City of Marysville of \$1.0 million for the deep-water outfall project and an excise tax refund of \$0.2 million. Total capital contributions for 2005 including prior period adjustment totaled \$5.6 million.

Overall, the senior lien debt service coverage ratio remained strong at 2.50, well in excess of bond requirements of 1.25.



2005 Total Revenues
(Millions of Dollars)



2005 Total Expenses
(Millions of Dollars)

2005 Financial Status

Statement of Operations*

	2003	2004	2005*
Operating Revenues			
Charges for Services			
Water	\$ 22,889,164	\$ 22,487,658	\$ 23,317,556
Sewer	19,906,523	21,602,088	24,408,816
Total Charges for Services	\$ 42,795,687	\$ 44,089,746	\$ 47,726,372
Operating Expenses			
Personnel Services	\$ 11,937,223	\$ 12,740,846	\$ 13,497,122
Supplies	2,663,449	2,848,203	3,907,679
Professional Services	2,322,545	2,897,134	3,098,750
Depreciation/Amortization	7,438,201	7,644,747	8,431,017
Taxes	3,193,204	3,521,044	3,593,359
Outside/Intragovernmental Services	5,951,783	5,979,738	5,338,823
Total Operating Expenses	33,506,405	35,631,712	37,866,750
OPERATING INCOME	\$ 9,289,282	\$ 8,458,034	\$ 9,859,622
Non-Operating Revenue (Expense)			
Grant Revenue	\$ 225,786	\$ 122,830	\$ 17,345
Interest Revenue	764,462	904,616	1,230,625
Rent	436,558	560,225	584,684
Timber Sales	0	567,242	0
Special Assessment Income	0	0	0
Other Non-Operating Revenue	95,805	107,332	149,253
Gain (Loss) on Sale of Assets**	18,860	65,026	185,232
Interest Expense	(2,121,448)	(835,499)	(1,240,548)
Total Non-Operating Revenue (Expense)	(579,977)	1,491,772	926,591
Income Before			
Contributions & Transfers	8,709,305	9,949,806	10,786,213
Capital Contributions	5,934,807	3,865,669	4,603,846
Operating Transfers In (Out)	648,997	367,745	(80,000)
NET INCOME	\$ 15,293,109	\$ 14,183,220	\$ 15,310,059
Net Equity - Beginning	250,875,889	266,168,998	280,352,218
Prior Period Adjustments	0	0	1,167,342
NET EQUITY - ENDING	\$ 266,168,998	\$ 280,352,218	\$ 296,829,619

* For the year ended Dec. 31, 2005 (unaudited)

** Sale of Surplus Property

Balance Sheet*

	2003	2004	2005*
Current Assets			
Cash & Cash Equivalents	\$ 7,245,498	\$ 3,061,830	\$ 21,673,724
Investments	43,921,615	47,647,039	60,391,815
Accounts Receivable	12,978,598	8,078,479	14,988,711
Inventory	408,833	429,188	492,569
Total Current Assets	64,554,544	59,216,536	97,546,819
Restricted Assets			
Cash & Cash Equivalents	3,147,188	2,794,186	1,178,212
Investments	935,431	912,248	2,891,704
Special Assessment Reserve	213,612	155,536	103,172
Total Restricted Assets	4,296,231	3,861,970	4,173,088
Fixed Assets			
Plant & Equipment (Net)	245,435,275	257,577,976	270,190,094
Construction in Progress	40,527,011	45,308,263	51,381,234
Total Fixed Assets	285,962,286	302,886,239	321,571,328
Other Non-Current Assets	2,423,015	3,672,548	4,551,014
TOTAL ASSETS	\$ 357,236,076	\$ 369,637,293	\$ 427,842,249
Liabilities			
Current Debt	\$ 7,588,967	\$ 7,104,326	\$ 7,694,342
Accounts Payable	1,804,944	1,965,890	2,298,211
Employee Benefits Payable	559,009	919,893	1,303,912
Total Current Liabilities	9,952,920	9,990,109	11,296,465
Non-Current Liabilities			
Long-Term Obligations	81,800,258	79,283,216	119,705,696
Deferred Revenues	24,695	11,750	10,469
Total Long-Term Liabilities	81,824,953	79,294,966	119,716,165
TOTAL LIABILITIES	\$ 91,777,873	\$ 89,285,075	\$ 131,012,630
Fund Equity			
Capital Assets, Net of Debt	\$ 233,383,099	\$ 218,117,128	\$ 206,700,855
Retained Earnings (Reserved Restricted Assets)	4,281,921	3,848,940	4,161,338
Retained Earnings (Unreserved)	28,503,978	58,386,150	85,967,426
Total Retained Earnings	32,785,899	62,235,090	90,128,764
TOTAL FUND EQUITY	\$ 266,168,998	\$ 280,352,218	\$ 296,829,619
TOTAL LIABILITIES/EQUITY	\$ 357,946,871	\$ 369,637,293	\$ 427,842,249

* For the year ended Dec. 31, 2005 (unaudited)

2005 Financial Status

Historical Operating Results*

	2003	2004	2005*
Operating Revenue			
Charges for Services:			
Water	\$ 22,889	\$ 22,488	\$ 23,317
Sewer	19,907	21,602	24,409
Total Operating Revenues	42,796	44,090	47,726
Operating Expenses			
Wages	11,937	12,741	13,497
Supplies	2,663	2,848	3,908
Professional Services	2,323	2,897	3,099
State Taxes	780	844	824
Biosolids Removal	0	0	0
Outside/Intragovernmental Services	5,952	5,980	5,339
Total Operating Expenses	23,655	25,310	26,667
NET OPERATING REVENUE	\$ 19,141	\$ 18,780	\$ 21,059
Other Revenue (Expense)			
Grant Revenue	226	123	17
Investment Income	764	905	1,231
Non-Bond Interest	0	0	(232)
Rent	437	560	585
Other Revenue	97	107	149
Timber Sales	0	567	0
LID/ULID Assessments	84	59	49
Gain on Sale of Assets	19	65	185
Total Other Revenue	1,627	2,386	1,984
TOTAL AVAILABLE FOR DEBT SERVICE	\$ 20,768	\$ 21,166	\$ 23,043
Debt Service Requirements			
Existing Senior Parity Debt Service	7,311	7,309	9,217
Existing PWTF Loan**	1,335	1,486	2,564
Total Debt Service	8,646	8,795	11,781
Parity Lien Debt Service Coverage Ratio	2.84	2.90	2.50
Total Debt Service Coverage Ratio***	2.40	2.41	1.96
Less Payment in Lieu of Taxes	2,413	2,677	2,677
ENDING BALANCE AVAILABLE	\$ 9,709	\$ 9,694	\$ 8,585

* In thousands of dollars for the year ended Dec. 31, 2005 (unaudited)

** The junior lien debt is the Public Works Trust Fund ("PWTF") loan

Notes To Financial Statements

Upgraded Bond Rating

The Division received an upgraded bond rating from Moody's Investors Services. Moody's Investors Services increased the rating from A1 to Aa3, while Standard & Poor's Investor Service maintained the bond rating at AA-. This is the first bond rating upgrade for the City of Everett since 1997. Moody's Investor's Service noted the Division's sound finances with healthy debt service coverage, manageable debt levels and satisfactory legal provisions.

Debt Administration

The Division issues revenue debt and pledges to pay the debt requirements from sales derived from the Utilities Fund. The Division had the following outstanding debts (excluding interest): water and sewer revenue bonds of \$95.3 million, Public Works Trust Fund loans of \$25.4 million, and a \$0.2 million proprietary fund lease. The Division has cash reserves of \$4.0 million to finance the redemption funds and annual debt service. The Division complies with all significant limitations and restrictions as disclosed in the bond covenants and is required to maintain debt service coverage of 1.25.

Annual Debt Service

Senior Parity Bonds

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2006	\$ 4,380,000	\$ 4,837,494	\$ 9,217,494
2007	4,585,000	4,406,208	8,991,208
2008	3,765,000	4,202,433	7,967,433
2009	3,940,000	4,026,033	7,966,033
2010	4,140,000	3,838,645	7,978,645
2011	2,285,000	3,638,838	5,923,838
2012	2,385,000	3,538,338	5,923,338
2013	2,490,000	3,432,513	5,922,513
2014	2,615,000	3,310,163	5,925,163
2015	2,745,000	3,179,413	5,924,413
2016-2020	15,925,000	13,696,313	29,621,313
2021-2025	20,250,000	9,377,000	29,627,000
2026-2030	25,775,000	3,841,775	29,616,775
Total	\$ 95,280,000	\$ 65,325,162	\$ 160,605,162

* Outstanding bonds include 1997 Bonds, 2002 Bonds, 2003 Bonds and 2005 Bonds.

On October 13, 2005, the Division issued a revenue bond of \$35.0 million with interest rates averaging 3.8% to 5.0%. This issuance was necessary to finance capital improvements for the water and sewer systems with the bulk of the funds for the expansion of the wastewater treatment facility. With the new 2005 revenue bond issuance, the outstanding water and sewer bonds increased from \$64.5 million on December 31, 2004 to \$95.3 million on December 31, 2005.

2005 Financial Status

Notes To Financial Statements

Annual Debt Service

Public Trust Loans

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2006	\$ 1,325,132	\$ 282,393	\$ 1,607,525
2007	1,843,132	721,049	2,564,181
2008	1,843,132	701,508	2,544,640
2009	1,788,953	681,967	2,470,920
2010	1,708,909	662,968	2,371,877
2011	1,690,909	644,769	2,335,678
2012	1,540,599	626,571	2,167,170
2013	1,540,599	609,695	2,150,294
2014	1,370,202	592,820	1,963,022
2015	1,184,968	581,056	1,766,025
2016-2020	5,785,756	2,759,395	8,545,151
2021-2025	3,826,479	2,552,999	6,379,478
Total	\$ 25,448,771	\$ 11,417,190	\$ 36,865,961

* Outstanding public trust loans include 1988, 2001, 2003, 2004 and 2005 loans.

In 2005, the Division was awarded several low-interest loans: \$10.0 million Washington State Public Works Trust Fund Construction Loan with 0.5% interest rate to finance the expansion of water pollution control facilities; \$4.0 million Department of Health Drinking Water SRF with 1.5% interest rate to finance the construction at the Water Filtration Plant and \$0.1 million Washington State Public Works Trust Fund Planning Loan to finance the comprehensive water plan. With the utilization of these loans, outstanding loans increased from \$16.7 million on December 31, 2004 to \$25.4 million on December 31, 2005.

Capital Improvement Projects (CIPS)

The Division spent \$28.5 million on CIPs in 2005 including capitalized interest of \$2.1 million. These programs were financed from a combination of capital contribution, operation revenues, government loans, revenue bonds and grants. The year ended with \$82.1 million in unrestricted cash and investment balances. The overall strong financial performance of the Utilities Division ensures future funding for capital projects.

Historical Rates

The water rate for single family flat-rate customers increased from \$0.60 or 4% in 2005, from \$16.50 to \$17.10 per month, to cover increased O&M and capital costs. This was the first increase in water rates since 1997. For wholesale customers, a twenty percent rate multiplier was added to the water charge.

The sewer rate for single family flat-rate customers increased \$3.50 or 11.4% in 2005, from \$30.65 to \$34.15 per month, to cover the capital cost of expanding the Water Pollution Control Facility, increased sewer and surface water O&M and other sewer projects.

	Water Rates	Sewer Rates
2001	\$16.50	\$25.65
2002	\$16.50	\$25.65
2003	\$16.50	\$28.15
2004	\$16.50	\$30.65
2005	\$17.10	\$34.75

Major Water Customers

The eight largest water customers in the Everett Water Service Area accounted for over 94 percent of the 2005 water service revenues:

Customer	Revenue
Everett Retail Customers	\$ 8,429,850
Alderwood Water District	7,563,177
Kimberly-Clark	1,497,917
PUD/City of Lake Stevens	1,268,501
Mukilteo Water District	1,110,304
City of Marysville	941,277
City of Monroe	599,487
Silver Lake Water District	411,926
Total	\$ 21,822,439

Major Sewer Customers

The four service areas served by the Water Pollution Control Facility accounted for about 94 percent of the sewer service revenues in 2005:

Customer	Revenue
City of Everett Customers	\$ 17,048,654
Silver Lake Water District	3,405,164
Alderwood Water District	1,555,016
Mukilteo Water District	693,697
Total	\$ 22,702,531

The sewer service revenues in these four service areas increased 12.4%, from \$20.2 million in 2004 to \$22.7 million in 2005.



City of Everett Utilities Division

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